

**MINUTES OF MARCH 5, 2014 RETIREMENT BOARD
CITY OF ALEXANDRIA
SUPPLEMENTAL RETIREMENT PENSION PLAN
DUE DILLIGENCE MEETING**

PRESENT

<u>Members</u>	<u>Others</u>
Shane Cochran, ¹ Chairman (General Schedule)	Steven Bland, Retirement Administrator
Bill Eger ² (General Schedule, Alternate)	Barry Bryant, Dahab Associates
Tom Gates, (Management)	Bryan Capelli, Retirement Specialist
Robert Gilmore ¹ (Deputy Sheriff)	Kadira Coley, Retirement Specialist
Jean Kelleher ¹ (Management, Alternate)	Elizabeth Davies, Management
Nancy McFadden (Medic)	
Marietta Robinson (General Schedule)	
Nelsie Smith (Management)	
Laura Triggs, ² Secretary (Management)	
Valarie Wright (Deputy Sheriff, Alternate)	

Absent:

Brenda D'Sylva (General Schedule, Alternate)
Young-Ju Kim (Medic, Alternate)
Morgan Routt (Management)

Terms: 1/1/2014 – 12/31/2015

¹Technical Corrections and Plan Document Review Committee

²Vendor & Service Provider

CALL TO ORDER

The meeting was called to order at 8:32 AM on March 5, 2014.

MEETING RECORD

There was a motion by Ms. McFadden to:

Approve the January 8, 2014 minutes.

Ms. Wright seconded the motion. The motion was unanimously approved (7 – 0).

FINANCIAL REVIEW

Financial & Economic Review

Mr. Bryant provided a brief economic and market summary to set the stage for performance review.

Mr. Eger arrived at 8:41 AM.

Investment Review

The portfolio has more equity weighting than the average in the peer universe. Equities did well for the quarter and the year, so the portfolio outperformed. Domestic equities outperformed international equities. That too led to portfolio outperformance. Large cap outperformed mid and small cap in the quarter. The portfolio overweights mid and small cap, and this held the portfolio back slightly.

Real estate and timber outperformed fixed income. The portfolio holds more of these than its peer universe average, helping the portfolio performance.

Ms. Kelleher arrived at 8:45 AM.

Inflation hedges such as TIPS underperformed, and the portfolio has little exposure to these.

Handout 2 (b) (iii) Exhibits 1 & 2 are returns for the savings plans: deferred compensation (457) and the Fire & Police defined contribution plan (401 (a)) as well as the Roth. Best practice for quarterly reports is to only include information on accounts that are invested for the full quarter. The transitions at ICMARC took place in mid – October, so the first full quarter will be January through March. This will be brought to the board at the May meeting.

Mr. Gilmore arrived at 8:50 AM.

MANAGER REVIEW ATTRIBUTION ANALYSIS

Staff discussed some approaches to manager review and attribution analysis. Most of the discussion followed the handouts. Some questions are rather universal. Others are manager specific. The manager specific issues are deferred until May when Herndon is present. Handout 3 exhibits 3 and 4 address the impact of style (value vs. growth) and capitalization (size). Exhibit 5 is an example of attribution analysis.

GLOBAL TACTICAL ASSET ALLOCATION

Staff provided a context for the presentation. Global Tactical Asset Allocation (GTAA) could provide some risk management assistance. However, not much had ever been said of how tactical asset allocation managers do their work. Staff dignified the GTAA effort by saying that the portfolio management process can be quite quantitative and need not be driven by “hunches.” A chart (handout 4 (a) exhibit 1) was displayed with a remarkable correlation between the price of the S&P500 and the level of stock buybacks. Stock buybacks was but an example. Another handout listed a large number of data points a firm might use to quantify asset allocation weighting decisions.

Mr. Bryant indicated an all too common approach is to have a manager set up a benchmark of 60% equities and 40% fixed income. Then the manager would weight their portfolio 65%/35%. Since

equities typically outperform fixed income, this will lead to being perceived as an outperformer. This is not what we are looking for.

Mr. Bryant had reviewed over a dozen submissions to the tactical asset allocation RFP. He believes he will bring three back to the board. 1) PIMCO markets a product sub-advised by Research Affiliates, 2) Good Harbor, who he said has a focus to protect on the downside, and 3) a third company that has not yet been determined. The third might be Wellington. The three would represent three completely different styles.

Handout 4 (b) is to support an asset allocation study. When an asset allocation study is performed, providing a range will narrow down the possibilities to a manageable size, making work easier and more focused for both the board and Dahab Associates.

ADMINISTRATOR'S REPORTS

Regular Investment Reports

No rebalancing was required. January's and February's strong markets were nearly offsetting.

Landmark had several distributions recently.

Returns for three NCREIF benchmarks were distributed: timber, farmland, and real estate.

Other Items

Education: conferences, seminars and training

Two websites with valuable information are listed. One site has best practices for boards on alternative investments, such as how to do an RFP or performance manager review. The other website hosts a significant number of two to five minute videos on definitions and explanations of alternative investment terms.

CAFR

Ms. Triggs provided an overview of the pension footnote to the City's annual report (CAFR).

Determination letter from IRS

The application and documentation for a determination letter had been submitted prior to the deadline. The wait for results was unpredictable, but typically rather long.

CAPPP Class

Staff requested prices from the IFEBP for bringing a CAPPP class to Northern Virginia.

Federal Reserve Board

At a prior meeting Mr. Eger requested information on the Federal Reserve Board ("the Fed") in general and quantitative easing (QE3) in particular. A Nobel Prize winner in economics from George Mason University produced a video on the Federal Reserve Board's duties. It provided background. Future meetings will pursue other aspects of the Fed and QE3.

Real Estate – cash vs. reinvest

Prudential real estate announced a distribution of \$67,000. Last year distributions were taken in cash. Beginning with this payment, there will be reinvestment.

P/E Ratio

At a prior meeting a question was raised as to the average price to earnings ratio. Handout 5(b)(iv)(4) showed the P/E ratio for 120 years. Currently the P/E ratio is on the high side, but not at historic extremes.

Portfolio Construction & Volatility

At a prior meeting a trustee asked how adding a volatile asset to a portfolio could lower volatility. Staff indicated it could if the correlations of the volatile asset to other parts of the portfolio were low enough. This counter-intuitive thought was demonstrated by graphs and tables.

Vendor Start Dates

Previously a handout of vendor start dates was distributed. Additional information was requested and the information redistributed.

Financial & Investment Planning: Individual vs. Institutional

At a prior meeting a trustee asked about ways to analyze the plan's investments. Staff distributed a high level compare & contrast sheet of factors and considerations in managing individual versus institutional assets.

Rebalancing History

A history of recent rebalancing was distributed.

PIMCO Management Changes

Mohamed El-Erain recently left PIMCO. He was the Co-CEO and generally considered one of the greatest investment minds of the last several decades. It remains to be seen if the departure merits the board's consideration of reassigning plan assets.

Lump Sum Option

Plan participants have a payout option of taking their benefit in monthly payouts for life or in a lump sum. The lump sums are calculated using a market interest rate. In calendar year 2013 the rate used was 2.8% and this lead to some very large payouts.

Staff distributed a summary of fiscal year 2013 lump sum activity.

There was a motion by Ms. Triggs to:

Recommend that the Technical Corrections and Plan Document Review Committee review the interest rates associated with the lump sum option in the plan.

Mr. Gates seconded the motion. The motion was unanimously approved (8 – 0).

OLD BUSINESS

ICMA-RC Update

When the ICMARC platform was being updated there was a request for a follow up report. Handout 6 (a) was presented as a table of contents or outline of such a report. Board members were asked to send comments on the proposed outline to the Pension Administration Division.

Strategic Discussion – Equity Exposure

Mr. Bryant would like to take a strategic view of Asset Allocation over two meetings. He proposes to discuss:

- 1) The asset allocation and performance public pension plans in Virginia,
- 2) Risk with an emphasis on historical records,
- 3) Dahab's new asset allocation model, and
- 4) New strategies.

Mr. Gates asked why he wishes to look at plans that are close geographically? Mr. Bryant said it makes it easy to do a comparison. It is easier to research.

Mr. Bryant mentioned three books:

1. Pioneering Portfolio Management, by David Swenson
2. Unconventional Success, David Swenson
3. Against the Gods, Peter Bernstein.

Staff had read these books and also endorsed them.

Mr. Bryant also recommended an article by Imad A. Moosa, *The Failure of Neoclassical Financial Economics: CAPM and its Pillars as an Illustration*. The article is found in Journal 33 of the Capco Institute of Financial Transformation.

A handout from a prior meeting indicated four high level ideas for an overriding investment strategy. Staff was asked to expand the list. The list was extended and included in the packet.

Schedule of topics for 2014

Following the canceled February board meeting the schedule of visits from portfolio managers was modified. The calendar was updated and redistributed.

COMMITTEE REPORTS

Technical Corrections and Plan Document Review Committee

There was a motion by Ms. Triggs to:

The Board accepts the recommendation from the Committee documented on handout 7(a) (i).

Mr. Gates seconded the motion. The motion was unanimously approved (8 – 0).

Vendor & Service Provider Review Committee

The committee is looking at vendor contracts. The first contract coming up for an extension or completion is Dahab Associates'. The Board has not yet developed a protocol for reviewing contracts with renewal options.

NEW BUSINESS

There was no new business.

NEXT MEETINGS

1. Wed. April 2nd 8:30AM, Sister Cities Room 1101, Interim Meeting
2. Fri. May 9th 8:30AM, Sister Cities Room 1101, Joint Due Diligence Meeting
3. Thur. June 12th 8:30AM, Sister Cities Room 1101, Joint Board Retreat

ADJOURNMENT

The meeting adjourned at 10:55 AM.

HANDOUTS

Distributed to Board members in the Board Packet:

Agenda
Minutes of Prior Meeting [1(a)]
Investment Performance Review [2(b)(i)]
Defined Contribution & Deferred Compensation Fund Returns [2(b)(iii)]
Manager Attributes [3 – Exhibit 1]
Manager Review - Factor Models [3 – Exhibit 2]
Manager Review – Market Performance & Market Cap [3 – Exhibit 3]
Manager Review – Market Performance & Style [3 – Exhibit 4]
Manager Review – Attrition Analysis [3 – Exhibit 5]
Tactical Asset Allocation [4(a) – Exhibit 1]
Tactical Asset Allocation – Methods & Indicators [4(a) – Exhibit 2]
Asset Allocation [4(b)]
Monthly Investment & Rebalancing Report [5(a)(i)]
Private Equity Cash Flow Report [5(a)(iii)]
NCREIF Returns - Timberland [5(a)(vi) – Exhibit 1]
NCREIF Returns - Farmland [5(a)(vi) – Exhibit 2]
NCREIF Returns - ODCE [5(a)(vi) – Exhibit 3]
CAFR Excerpts [5(b)(ii)]
Administrator’s Follow-Up Items List [5(b)(iv)]
Follow-up Item – Price to Earnings Ratio [5(b)(iv)(4)]
Follow-up Item – Portfolio Construction & Volatility [5(b)(iv)(5)]
Follow-up Item – Vendor Start Dates [5(b)(iv)(6)]
Follow-up Item – Financial & Investment Planning: Individual vs. Institutional [5(v)(iv)(7)]
Follow-up Item – Rebalancing History [5(b)(iv)(8)]
Lump Sum Payment [5(b)(vi)(1)]
Action Items & Recommended Motions [5(c)]
ICMA-RC Potential Transition Report [6(a)]
Strategic Discussion - Equity Exposure [6(b)]
Planning Meeting for 2014 [6(c)]
Technical Corrections [7(a)]

Distributed to Boards:

- Dahab’s December 2013 Performance Review Booklet